



The 2010 State of the State Address

“Jumpstarting Jobs” Package

Nothing is more important right now than jumpstarting Alabama’s economic recovery.

Last year, the Governor proposed and the Legislature passed a major reform to extend statutory economic development incentives to attract knowledge-based jobs and green jobs to the State. Within only a few months, that legislation brought hundreds of new jobs to Alabama.

But the Legislature failed to pass other economic recovery bills proposed by the Governor. So the Governor is reintroducing those bills again this year and asking the Legislature to support tax relief that creates jobs and generates new revenue for the State.

Back-to-Work Tax Credit

House Bill ____ and Senate Bill ____ would establish a temporary tax credit of up to \$1,500 for every new job an employer creates and fills by hiring a worker from the State’s unemployment rolls.

The tax credit is designed to “jumpstart” job creation and accelerate economic recovery while reducing the drain on the State’s unemployment compensation trust fund. **This proposal, first introduced by the Governor last year, is now becoming a national model for jumpstarting economic recovery.** It has bipartisan support. The President of the United States recently included a similar proposal in his economic recovery agenda. **AUM economist Dr. Keivan Deravi says, “It will surely accelerate employment”** and estimates that it will result in the creation of at least 6,000 additional jobs as the economy begins to turn around.

The tax credit works to accelerate recovery because it motivates employers to do their hiring this year in order to take advantage of the credit. In turn, this accelerates economic recovery and restores desperately needed income-tax revenue for education.

Targeted Job Creation Tax Credits

House Bill ____ and Senate Bill ____ will provide a \$1,500 tax credit over three years for employers who create jobs in the 25 Alabama counties with the highest unemployment. As more and more national and international firms look to Alabama for doing business, **this tax incentive will encourage companies to consider locating in parts of the State that need jobs the most, especially in the Black Belt and other rural counties.**



Jumpstarting Jobs: The Back-to-Work Tax Credit

Background

- Last year, the Governor proposed and the Legislature passed landmark legislation to extend statutory economic development incentives to attract knowledge-based jobs and green jobs to Alabama. However, the Legislature did not pass a "Back to Work Tax Credit" the Governor proposed to further jumpstart job growth and economic recovery.
- Although Alabama did not adopt this proposal, it is becoming a national model for getting people back to work. It is supported by Republicans and Democrats alike. At least one other state is borrowing the idea. President Obama included it in his recently released economic recovery priorities.
- The proposal recognizes that tax relief to reduce the cost of doing business for employers is a more effective and fiscally responsible way of stimulating job creation than spending more and more taxpayer dollars.

What will this bill do?

- A temporary tax credit of up to \$1,500 for every new job an employer creates and fills by hiring a worker from the State's unemployment rolls. The credit is designed to jumpstart job creation and accelerate economic recovery.
- **Eligibility:** Employers will be entitled to a one-time income tax credit (i.e., a dollar-for-dollar reduction of taxes due) of up to \$1,500 for each full-time worker hired from the state's unemployment rolls.
 - The job must be an increase in the number of employees on the employer's payroll.
 - The worker must currently be receiving unemployment benefits.
 - The job must pay a wage of at least \$10.55 per hour. Higher credits are available for higher paying jobs. (See below)
 - The job must be created before June 30, 2011. The tax credit would be claimable against taxes due in the tax year that the job was created.
- **Amount of Credit:** The amount of the credit is stair-stepped by wages because the new income taxes generated from higher-paying jobs will "pay" for higher tax credits.

Employee's Wage	Annual Salary Equivalent	Employer's Tax Credit
\$10.55>\$15	\$21,100>\$30,000	\$500
\$15>\$20	\$30,000>\$40,000	\$1000
\$20+	\$40,000+	\$1500

The Big Picture

- **According to economist Dr. Keivan Deravi, “It will surely accelerate employment.”** Dr. Deravi estimates conservatively that 6,000 additional jobs will be created as a result of this tax credit as the economy begins to turn around.
- The tax credit works like a “jumpstart” because it is available for a limited time only. Employers who think they might add employees as the economy begins to recover will be motivated to do their hiring this year in order to take advantage of the credit. In turn, this accelerates economic recovery and restores desperately needed income-tax revenue to the ETF sooner.

How much will it cost?

- The bill is written so that the cost of the Back to Work Tax Credit is offset by the new income tax and sales tax revenue paid by the newly employed workers. Since the tax credit is temporary and the jobs are likely to be long-term, this bill will generate a net increase to the Education Trust Fund.
- In addition, the requirement that the workers be hired from the State’s unemployment rolls will reduce the drain on the State’s unemployment compensation trust fund.

Effective date. Effective for tax years beginning on or after January 1, 2010.



GOVERNOR'S OFFICE **FACT SHEET**

Targeted Job Creation Tax Credit

Background

- Unemployment in rural counties has historically been higher than the rate in urban areas. In December of 2009 the unemployment rate in Wilcox County, for example, was 24.3%, and the rate in Monroe County was 21.1%.
- Many states like Colorado, Maryland, and Ohio have created special zones to target high unemployment cities and counties with local and state tax incentives for businesses that expand or locate in designated areas. Georgia, Tennessee, Arkansas, North Carolina, Louisiana, and Florida are examples of southern states providing tax incentives for targeted job creation.

What will this bill do?

- This bill will give employers an income tax credit of \$500 per new job created in high unemployment rural counties for each of the first three years the job exists.
- The credit will be available for jobs created in the 25 counties with the highest annual unemployment rate, as identified by the Department of Industrial Relations.
- In order to qualify for the tax credit, the employer must have a net increase in the total number of full time employees in Alabama on the last date of each tax year for which the employer claims a credit.

The Big Picture

- The Targeted Job Creation Tax Credit will help attract new jobs to economically-depressed areas of rural Alabama and provide greater employment opportunities in counties suffering the most during this economic slow down.
- The tax credit will also help attract new industry to rural Alabama and encourage existing businesses to expand, serving to strengthen the overall state economy, expand the tax base to generate much-needed state revenue, as well as to bolster the unique communities scattered throughout Alabama's rural counties.

How much will it cost?

- This incentive is targeted to create new jobs, so it actually generates new state revenue from the new income taxes and sales taxes paid by the new employees.
- Targeted tax incentives like this one lead to economic development and new jobs, which in turn generate revenue for the Education Trust Fund. These incentives should be viewed as long-term investments in our state and its hard-working citizens.

Effective date. Effective for tax years beginning on or after January 1, 2010.



Small Business Tax Incentives for Health Insurance

Background

- In Alabama 93% of privately insured individuals receive health insurance coverage through their employer. (U.S. Census Bureau, 2005)
- Unfortunately, statistics show less availability of employer-sponsored health insurance among small businesses. In Alabama, **28% of small business employees do not have employer-sponsored health coverage**, compared to just **1 % without such coverage in larger companies**. (DHHS, Agency for Health Care Research and Quality, 2004 Medical Expenditure Panel Survey)
- Survey research indicates that small business owners are more likely to provide health insurance when tax incentives are offered. A 2002 Small Employer Health Benefits Survey conducted nationally by Employee Benefit Research Institute found that **71% of employers** would be much more likely or somewhat more likely to seriously consider offering health benefits if tax incentives were offered. (EBRI Issue Brief Number 253, January 2003)
- Tax incentives for small businesses that provide health insurance is an idea that enjoys bipartisan support on a national level. For example, over 100 Democrat congressmen co-sponsored the **Federal Small Business Health Insurance Promotion Act of 2005**, a proposal to give a tax incentive to small business employers who provide health insurance.
- In 2008, the Legislature passed and Governor Riley signed a bill to increase the tax deduction available to employers and employees of small businesses for health insurance premiums to 150% of the premiums paid.

What will this bill do?

- This bill would create increase the income tax deduction for health insurance premiums paid by small business employers and their employees from 150% to 200%.
- The tax incentive would allow small business owners to deduct from their state income taxes twice the amount they pay for health insurance premiums.
- The deduction would be available to businesses with fewer than 25 employees.
- Employees of small businesses could also deduct twice the amount they contribute to premium payments. This deduction would make employer-sponsored health insurance more affordable and encourage greater employee participation.
- To qualify for the deduction, an employee must have an adjusted gross income of less than \$50,000.

The Big Picture

- This measure represents a focused plan to decrease the number of uninsured in Alabama by increasing the availability and affordability of employer-sponsored health insurance among small businesses. Moving the uninsured into employer health plans ultimately lowers health care costs borne by the taxpayers.

How much will it save taxpayers?

- The deduction would save taxpayers \$33 million annually.

Effective date

- The effective date will be for tax years beginning after December 31, 2010.